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SINO-SOVIET BLOC MERCHANT MARINE TRANSPORT

PATTERNS AND PROSPECTS

I. INTRODUCTION

My discussion today will focus on the seaborne trade of the Soviet Bloc, its volume, character and pattern, and the requirement that this trade generates for merchant shipping service and tonnage. I shall present our current estimate and attempt to look into the future -- although the events of the last few years indicate that Bloc planning in merchant marine affairs, is apt to be dislocated virtually overnight.

Those of us with responsibility for following merchant shipping service are greatly concerned not only about the present situation, but also about the intentions of the Bloc with respect to merchant shipping and future capabilities in this field.

In the expectation that the information which I will present today may be of value in your consideration of other aspects of Bloc shipping problems, I have also arranged to have copies of certain of the data used in this presentation distributed for your retention.

Since 1950, most of the countries of the Sino-Soviet Bloc have been engaged in a fairly intensive drive to attain a greater self-sufficiency in their merchant marines. These activities have been most noticeable, of course, in the USSR, Poland, and East Germany. In the Far East, Communist China's drive for maritime self-sufficiency which became pronounced in 1956, slackened off in 1961 and 1962.

The primary purpose of these maritime programs has been to reduce the traditional reliance of Bloc states on Free World shipping for the carriage of Bloc seaborne trade. The attainment of this goal has been difficult for the Bloc. For in spite of the sizeable growth of the Bloc fleets, reliance on Free World shipping has continued to increase. Since 1958 the volume of Bloc seaborne trade has increased faster than the ability of the growing Bloc fleets to do more than keep pace.

A new intensification of the Bloc program to acquire modern merchant ships now makes it likely that this trend will be reversed and that by 1965 the Bloc will become increasingly capable of carrying a greater share of its growing seaborne trade. Successful fulfillment of recently announced Bloc maritime plans may also have a decisive impact upon the ability of the Bloc to present an effective competitive threat to Free World maritime powers. The development of its maritime fleet is also giving the Bloc another potentially serious weapon for the conduct of economic penetration activities and economic warfare.

It is within the context of an impressive maritime development with a growing independence from reliance on Western shipping, and a developing competitive capability that I will discuss today the present status and prospects for the Sino-Soviet Bloc merchant marine through 1965. The focus of this discussion will be specifically on the following major topics:

1. Fleets of the Soviet Bloc
2. Trends in Operational Uses of the Bloc Fleets
3. Seaborne Foreign Trade of the Bloc
4. Implications of Current and Planned Ocean Transport of the Bloc

II. Fleets of the European Soviet Bloc

As can be seen in Figure 1, Bloc merchant fleet growth between 1950 and 1955 was not quite as impressive as the growth in the world active fleet, a 31 percent increase compared to a world increase of 34 percent. But from 1955 to 1960 the Bloc focused greater attention on its merchant marine, and increased its fleet capacity 71 percent compared with a 32 percent increase in the world fleet.

Our analysis of published plan data and the current pattern of vessel acquisitions, point to a continuing high rate of growth of the European Bloc fleets in comparison to growth in the world fleet. In 1950 the European Bloc fleets accounted for only 3 percent of the world total. By 1965 they will account for about 6 percent and by 1975 at least 13 percent.

These comparisons are all predicated on the assumption that the growth of the world fleet will follow the pattern established since 1945 and that there will not be occasion for a sudden and drastic increase in world tonnage between now and 1975!

The Soviet fleet, of course, makes up the bulk of the Bloc fleet tonnage shown in Figure 1, accounting for 4.5 million DWT in 1960, 8.6 million DWT in 1965, about 15 million DWT in 1970 and about 20.5 million DWT in 1975. Tanker fleets, both Soviet and Satellite, are growing rapidly, from 519,000 DWT in 1955 to 1.3 million DWT in 1960 to a probable 3.3 million DWT in 1965. It is possible that this extraordinary rate of growth in the Soviet tanker fleet may level off somewhat after 1965, but it is equally possible that these are conservative estimates in view of various estimates made by interested Western observers on the probable increases in exportable surpluses of Soviet petroleum.

The Communist Chinese fleet has not been included in these figures because the events of the past year have made it obvious that any estimates of future fleet growth would at this stage be completely unreliable. The Chinese planned originally to have a fleet of over 3 million DWT in 1965, but the fleet at the end of 1960 (of ships of 1,000 GRT and over) was only about 680,000 DWT and in 1961 only about 50,000 DWT was added. This combined with the general dislocation in all phases of Chinese economic affairs makes any long range estimating a highly speculative matter.

III. Trends in Operational Uses of the Bloc Fleet

The two major components of the European Bloc fleets -- the Soviet fleet and the Satellite fleet -- traditionally have been engaged in quite different types of operations.

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While coastal traffic has always played a minor part in Satellite seaborne cargoes, the volumes of Soviet cabotage cargoes (coastal and intercoastal) have vastly outweighed foreign trade cargoes carried in Soviet vessels. In recent years, however, the Soviets have paid increasing attention to using their ships in foreign trade routes. The most recent publications have stressed this policy but it is very obvious from these same publications that the planning for use of the fleet is currently in a fluid and contradictory state.

There are several major factors which contribute to inconsistencies in present Soviet operational planning. One is the desire to establish liner services in the Western tradition, both in order to pick up more freight-earning interport cargo and to compete with Western liner services in the underdeveloped areas. The so-called liner services operated by the USSR to date amount to no more than having a certain number of ships usually operating in certain areas. No schedules are published nor could be published in the circumstances obtaining to date under which no true liner services are operating. Only recently have the Soviets realized that, short of putting their ships on the world charter market to procure cargoes for return voyages, true liner operations with soliciting agents in foreign ports would be necessary to generate cargo for the present preponderance of ballast runs one-way. (A recent Soviet book on sea transport mentions in a curiously plaintive manner that foreign interport cargo isn't moving in the same directions as Soviet ships!)

Another factor which apparently has plagued Soviet maritime planners appears to be the fairly complete disruption of existing plans caused by many recent events. These are to name a few: the sudden increase in shipping to and from Cuba and Indonesia -- both comparatively long haul routes -- and the recent upsurge in such trades as the petroleum trade. Both the USSR and the Satellites, for example, have had to divert many of their ships to the Cuban trade -- not only for political reasons (economic penetration as well as carriage of military types of cargo) but also to save to some extent the foreign exchange being paid for Western ships in that trade.

A telling example of the dilemma caused by these dislocations to the original maritime plans was the report some of you may have noticed in the Western press in July 1960. This report indicated that in order to use their own tankers in the Cuban trade the Soviets were negotiating with West European petroleum buyers to arrange their own transport of petroleum imports from the USSR. As a special inducement the Soviets were reported to be ready to pay the difference between the c.i.f. rates contracted previously and the higher freight rates expected to result from use of Western tankers.

In any event, the magnitudes of the Cuban trade and other trades have caused an unplanned increase in the tons and particularly the ton-miles performed by ships engaged in foreign navigation.

The confusion is compounded by the interplay between the two foregoing circumstances. The desire to establish liner services and to cut down one-way ballast runs is in conflict with the need to keep the Soviet fleet flexible to meet demands such as the Cuban traffic.

This dilemma has become clearly apparent in recently published performance plans for both 1965 and 1980. The recent plans are not consistent with other official statements that the emphasis in future growth would be on foreign navigation rather than cabotage. If the published plans for total ton and ton-mile performance are compared with our best judgment on the probable volumes to be carried in foreign navigation, and the size of the fleet in those years, the residual would represent a doubling and quadrupling of tons carried in cabotage, which is not only contradictory to policy statements and actual performance trends but also against common sense appraisal of their cabotage needs.

It would appear therefore that the announced fleet plans beyond 1965 have not caught up with the other Soviet plans for the expansion of foreign trade. If this interpretation is correct, the fleets shown for 1970 and 1975 may be low.

At the present time, certainly, it is believed that the fleet will indeed be increasingly used in foreign navigation, and that some attempts will be made to build up liner organizations both ashore and afloat.

IV. Seaborne Foreign Trade of the Bloc

The data shown in Figure 2 for Bloc seaborne trade is quite reliable from 1950 through 1960. Data for 1965 through 1975 were arrived at through extrapolation plus a few reports of planning by Bloc countries. Here again, even though our estimates of Bloc seaborne foreign trade are very conservative, the result shows that Bloc trade since 1955 has grown much faster than world trade. By 1975, for example, Bloc seaborne trade should account for at least 12 percent of world seaborne trade compared to less than 5 percent in 1955.

The largest increases in Bloc trade ocurred in 1959 and 1960, and data thus far available indicate an even larger increase in 1961. You will notice that 1960 Bloc trade was at the level of 76 million tons. In 1961 this trade rose to about 92 million tons.

If the trend of Bloc seaborne trade were based on the rate of growth maintained in the past three years, the result would indicate a level of almost 200 million tons in 1965 and almost 500 million tons in 1970. By 1975 Bloc seaborne foreign trade would be more than 1,200 million tons or 65 percent of the presently estimated world trade level in 1975 and more than total world ocean trade in 1960. As far as can be presently foreseen, this is an absurdity, but it does indicate that our estimates of Bloc ocean trade (and consequently of world trade) in the next 13 years may be low.

In any event, the volume of Bloc trade is assuming an ever-increasing importance in the picture of world seaborne trade. To what extent this growing trade will affect the Free World ocean shipping situation is as yet problematical in view of the multiplicity of possible developments. In Figure 3 we have shown the most optimistic (from the Bloc point of view) estimate of what the Bloc fleets will be able to carry of their own cargoes.

For both 1970 and 1975 we have placed an arbitrary cut-off at 75 percent as the maximum share of their own trade that the Bloc fleets can carry. Ordinary commercial practice dictates this ceiling inasmuch as those trading partners which are maritime nations can be expected to see that some of the trade moves in their own bottoms. Another reason for this ceiling is that in both the USSR and the Satellites, export and import cargoes are not in balance.

Soviet, Polish and Rumanian trade is predominantly export and while the trade of the other Satellites is apparently mainly import, the cargo is not generally coming from the same areas at which the Soviet and Polish fleets call. For example, lumber and apatite shipments out of the Barents and White Seas and Soviet Arctic area continue to grow, while the volume of imports to those areas is small. Petroleum moving out of the Black Sea (28.5 million tons in 1961) is not matched by liquid cargoes coming in. Grains moving out of the Black Sea are not as yet matched by the volumes of incoming bauxite (from Greece), iron ore (from India), cotton (from Egypt), and fertilizers (from North Africa). Nor are these imports coming from the same areas as the grain exports.

In the Far East, unless the trade in cement and salt from China revives considerably, imports will not balance the planned exports of timber, coal and general cargo to Japan. In the Baltic, the trade of the USSR, as well as of Poland, East Germany and Czechoslovakia is similarly out of kilter. The only approximately balanced trade of the Bloc is at present with Cuba, about 4.5 to 5 million tons moving each way, but here again it is overwhelmingly tanker trade one way and dry cargo trade the other way.

Because of these built-in restrictions to the expansion of Bloc carriage of its own trade, the Bloc will have acquired some excess shipping capacity sometime between 1965 and 1970. By 1970, the Soviet fleet occupied in foreign navigation (estimated at 13 million DWT) should be capable of moving about 98 million tons. Assuming that the USSR will be limited to carrying not more than 75 percent of its seaborne foreign trade, or 85.5 million tons of our present estimate of the level of Soviet trade, the remaining 12.5 million tons will be non-Soviet trade, i.e. either other Bloc trade or non-Bloc trade or both. Depending upon the relative average lengths of haul between Soviet and non-Soviet trade, the excess fleet capacity not used in Soviet foreign trade may be between 1 million and 1.5 million DWT, probably all dry cargo freighters.

In 1975, we estimate that the Soviet fleet in foreign navigation may be able to move about 143.5 million tons, of which 112.5 million tons may be Soviet seaborne foreign trade (75 percent of estimated total Soviet trade), leaving about 31 million tons to be moved in other Bloc or non-Bloc trade. This amount of non-Soviet cargo indicates an excess fleet capacity in the neighborhood of 3 million to 4 million DWT, still probably all dry cargo.

We have for both 1970 and 1975, as shown in Figure 3, allocated most of this excess capacity to the carriage of cargoes for other Bloc nations. This is in accordance with the announced long-term goals of CEMA. The practical possibilities of this being carried out are remote unless some major shifts occur in the present patterns of Bloc seaborne trade. The likelihood remains that in 1970 at least 5 million tons and in 1975 at least 15 million tons of the cargo that Bloc fleets hope to carry for each other must be added to the cargo left over for carriage by non-Bloc vessels.

The very large increase of cargo carried by Soviet ships in 1965 compared to 1960, as shown in Figure 3, also represents a new Soviet plan figure published in 1961. We have used it as is, but we put little faith in it. Judging by past performance and the probable size of the fleet in 1965, it is likely that not more than 53 million tons can be carried by Soviet ships in foreign navigation and that non-Bloc vessels will be needed to carry at least 12 million tons of additional Bloc cargo.

V. Implications of Current and Planned Ocean Transport of the Bloc

For those Western maritime nations which have large tramp fleets, the probability that non-Bloc ships will be needed to carry about 50 million tons in 1965, 45 million tons in 1970 and 53 million tons of Bloc cargoes in 1975 may seem at first blush to be good news as it offers additional employment for non-Bloc ships. To the Western observers it is of interest as an indication of continuing dependence by the Bloc on non-Bloc shipping. The fly in the ointment for Western shipowners is the question of what the USSR will be doing with its unused fleet capacity by 1970 and 1975.

There have already been plentiful Soviet references to the desirability of establishing liner services in the Western sense, as well as employing booking agents in foreign territories to arrange for return cargoes for Soviet ships, the cargoes to be destined generally for Atlantic and Mediterranean Europe. There is also ample evidence that the Soviets will have no hesitations about offering below market rates to get return cargoes. Soviet solicitation of non-Bloc interport cargo can and probably will affect both the tramp market and Western liner services.

In the light of the foregoing, the Free World may expect increasing Soviet incursions into the world freight market from at least 1970 onward, purely as a result of practical ocean shipping economics. In the meantime, however, there is ample evidence that at least the USSR and East Germany have used portions of their present fleets as instruments of political action and can be expected to continue to do so as circumstances offer.

As we all know, the USSR has in numerous instances offered petroleum delivered c.i.f. at lower prices than the f.o.b. price from Western sources plus the going freight rates. Whether the USSR takes a loss in the price of the petroleum or the tanker freight earnings is immaterial. The offer is a package deal designed to penetrate new markets. There is evidence of the same tactics used in the dry cargo trade, particularly with the underdeveloped nations, and the question of whether those nations ultimately suffer a loss in their trade with the USSR when world prices and world freight rates are compared has little bearing so long as Soviet bargaining arguments appear attractive.

Another present tactic is the use of 50-50 shipping agreements with non-maritime nations. These agreements are being made with governments whose fleets are government owned and the trade to be exchanged can be called government cargo. The catch is that these non-Bloc fleets are too small to carry 50 percent and the Soviet ships will have obtained entree to carry the balance. Thus, third party shipowners are shut out and Soviet propaganda exploits the fact of calls by Soviet ships.

A third tactic was all too clearly observed in late 1960 and early 1961 when a few East German ships calling at Rangoon enroute Europe triggered a rate war. These ships were returning from China with little cargo aboard and anything they picked up enroute served to fill space that would otherwise have been empty. By offering rates consistently lower than Conference rates, these few ships ultimately forced the Burma - UK Conference to cut its rates in half, one-third below what was stated to be the break-even rate level. Not until early 1962, about 8 months after the East German ships ceased calling at Rangoon, did the Conference rates return to the prior levels.

The parallel with the far more numerous Soviet ships running one-way with light loads or even in ballast should give the shipping community pause. The USSR needs only to establish a network of strategically located freight agents to accomplish the same results on a far larger and more widespread scale. Furthermore, reports of Soviet plans and negotiations toward that end have been turning up with increased frequency in the past year.

Until very recently, Western shipping groups disparaged the possibility of ruinous competition from the Bloc fleets, considering the numbers of ships unimpressive compared to world shipping. Only now does there seem to be a budding awareness of what the Bloc fleets can do with such hit-and-run performances, let alone with sustained conference-opposing liner operations in strategic areas such as is reported to be in the groundwork stage in the Europe - Asia trade.

Thus, gentlemen, we see that, while the burgeoning ocean trade of the Bloc offers continued employment to non-Bloc shipping, the growing fleet capacity of the Bloc together with the ability to use these fleets for either political or economic ends at will, presents an increasing threat to the stability of established world maritime operations.